

Labor; strike pay. An organization, controlled by private individuals, that provides weekly income to its members in the event of a lawful strike by the member's labor union in return for an annual payment by the member does not qualify for exemption as a labor organization under section 501(c)(5) of the Code.

Advice has been requested whether the nonprofit organization described below qualifies for exemption from Federal income tax under section 501(c)(5) of the Internal Revenue Code of 1954.

The organization solicits members from the memberships of various labor unions. In return for an annual payment, it contracts to pay a weekly income up to a fixed number of weeks to a member in the event of a lawful strike by the member's union. It is controlled by private individuals and not by any labor organization exempt under section 501(c)(5) of the Code. Its receipts are from the annual payments made by its members and its disbursements are for strike pay to members and administrative expenses.

Section 501(c)(5) of the Code provides for the exemption from Federal income tax of labor organizations.

Section 1.501(c)(5)-1(a) of the Income Tax Regulations provides that the labor organizations contemplated by section 501(c)(5) of the Code are those which have no net earnings inuring to the benefit of any member and have as their objects the betterment of the conditions of those engaged in labor, the improvement of the grade of their products, and the development of a higher degree of efficiency in their respective occupations.

Because the organization has no authority to represent or speak for its members in matters relating to their employment, such as wages, hours of labor, working conditions, or economic benefits, it is not a 'labor organization' in the commonly accepted sense of that term as it is used in section 501(c)(5) of the Code. *Portland Co-operative Labor Temple Association*, 39 B.T.A. 450 (1939), acq., 1939-1 (Part 1) C.B. 28. The organization is controlled by private individuals and is not controlled by or connected with any of the labor organizations to which its members belong. It does not directly support the efforts of any labor organization to better employment conditions. Further, while the organization is operated for the purpose of providing payments of weekly income to workers in the event of a lawful strike by the worker's union, it does not make these payments with the objective of bettering conditions of employment, but by reason of its contractual agreements with the workers. Accordingly, the organization does not qualify for exemption from Federal income tax as a labor organization described in section 501(c)(5) of the Code.

Compare Rev. Rul. 67-7, 1967-1 C.B. 137, which holds that an organization controlled by a labor union exempt under section 501(c)(5) of the Code and providing financial assistance to the members of that union during strikes and lockouts may be exempt as a labor organization described in section 501(c)(5).